

1.1 Opinion

The audit of the financial statements of the Chilaw Plantations Limited for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with the provisions of the National Audit Act No.19 of 2018 and the Companies Act No.07 of 2007. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, the financial statements give a true and fair view of the financial position of the Chilaw Plantation Limited as at 31 December 2024, and of its financial performance and cash flows for the year then ended in accordance with the Sri Lanka Accounting Standards..

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements section of my report. I believe that audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the company's financial reporting process.

As per Section 16(1) of National Audit Act No.19 of 2018, the company is required to maintain proper books and records of all its income, expenditure, assets and liabilities to enable annual and periodic financial statements to be prepared of the company.

1.4 Scope of Audit (Auditor's Responsibilities for the Audit of the Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to related disclosures in the financial statements or if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern
- Evaluate the overall presentation, structure and content of the financial statements including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following.

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the company and

whether such systems, procedures, books, records, and other documents are in effective operation.

- Whether the company has complied with applicable written law, or other general or special directions issued by the governing body of the company,
- Whether the company has performed according to its powers, functions and duties and,
- Whether the resources of the company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Non-compliance with Tax Regulations

Audit Observation	Comments of the Management	Recommendation
(a) Value Added Tax (VAT) of Rs. 1.8 million had not been collected from the contractors when issuing invoices for the sale of sand in the company's estates during the year under review, and the company had paid that tax.	Since only the value of the minerals was submitted during the tenders, the prices submitted on that basis were used in the conclusion of the contract, and since the plantation company is a company registered for tax payment, the relevant VAT of 18 percent was paid to the Inland Revenue Department on the sales price, considering it as the taxable price.	A formal investigation should be conducted and actions should be taken to recover the tax amount not collected from the contractor from the relevant responsible parties.

2. Financial Review

2.1 Financial Results

The operating result for the year under review was a loss of Rs.138.37 million, as against a profit of Rs.231.73 million in the preceding year. Accordingly, a decline of Rs.370.1 million was observed in the financial result. This decline was mainly due to a decrease in financial income of Rs. 119 million and an increase in income tax expense of Rs. 287 million compared to the previous year.

2.2 Trend Analysis of major Income and Expenditure

	2024 (Rs.)	2023 (Rs.)	Variance (Rs.)	Variance as a percentage
Revenue	961,593,165	885,350,241	76,242,924	8.61
Financial and Other Income	238,011,756	341,545,704	(103,533,948)	(30.31)
Cost of Sales	722,205,190	657,567,338	64,637,852	9.82
Administrative Expenses	179,497,864	205,069,246	(25,571,382)	(12.46)
Finance Expenses	78,695,020	61,652,953	17,042,067	27.64

2.3 Ratio Analysis

- (a) The current ratio and quick asset ratio for the year under review were 7:1 and 6:1 respectively, while in the previous year, these ratios were 4:1 and 3:1 respectively.
- (b) The gross profit margin for the year under review was 25 percent, a decline of 1 percent compared to the same figure of 26 percent in the previous year.
- (c) The net profit margin was 14 percent in the year under review, a decline of 12 percent compared to 26 percent in the previous year.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	In the year 2010, the company had not taken steps to recover a total of Rs.196.5 million, including the loan of Rs. 105 million and the interest of Rs. 91.5 million, which had been given to 05 institutions namely the Janatha Estate Development Board, Elkaduwa Plantation Company, Sri Lanka State Plantation Company, Ministry of State Resources Enterprise Development and Rubber Products Export Corporation, by the end of the year under review.	In the 2014 annual accounts, a provision has been made for this loan and interest, and efforts are being made to recover this loan.	Formal action should be taken against officers who have taken actions to provide loans that are not in line with the company's objectives and who have not taken actions to recover the loans and interest on time.
(b)	For the National Coconut Cultivation Day in 2023, the Chilaw Plantation Company had incurred an expenditure of Rs. 5.19 million for land preparation, fencing, fuel and other expenses, purchase of equipment, provision of food and accommodation facilities for the program implemented to develop about 20 acres of land belonging to the Palai Estate and cultivate coconuts and the inauguration ceremony held concurrently with it, but the said expenditure incurred had been in vain due to the project not being implemented.	Although the Chilaw Plantation Company took actions to plant some trees in the Palai Estate, the 20 acres could not be developed and completed due to the fact that the Land Reforms Commission later planned to distribute the land to landless families in the Northern Province, and the police had informed any party to refrain from entering the estate until the issues that had arisen in this regard were resolved.	A formal investigation should be conducted, the responsible individuals who incurred expenses for an unplanned project should be identified, and actions should be taken to recover the money spent by the company.

3.2 Operational Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	By the end of the year under review, the Palugaswewa Estate had incurred a loss of Rs. 1.24 million from coconut oil production and no steps had been taken to bring those products to a profitable level.	Although coconut oil production is disadvantageous, as a state plantation company, coconut oil production is carried out with the aim of providing quality products to consumers and maintaining continuous production.	A formal program should be developed and implemented to bring coconut oil production to a profitable level.
(b)	When comparing the revenue and cost of sales of the company's products, there were 08 items where the cost of sales was more than 50 percent of the revenue. It ranged from 54 percent to 1253. The cost of sales of 03 items exceeded the revenue and the company had not taken formal measures to further reduce costs and bring the products to a profitable position.	In 2024, the gross profit rate of coconut and copra has increased by 3 percent and the livestock project by 4 percent. The write-off of unsold coconut seedlings from the books has increased the cost of sales in nurseries. The shortage of fertilizer and adverse weather conditions have contributed to the decrease in the pepper harvest. The increase in the selling price of a coconut has contributed to the increase in the cost of coconut oil production. The increase in the price due to the shortage of shelled cashew nuts has contributed to the increase in input costs. The cost of vegetable production has taken a high value due to the constant fluctuation in vegetable prices.	A formal program should be developed and implemented to develop products to a profitable level.

3.3 Weaknesses in Contract Administration

	Audit Observation	Comments of the Management	Recommendation
(a)	As the productivity of the coconut lands owned by the company is low, according to a project proposal submitted by the Chairman to develop the land by removing the mineral sand mixed soil and planting coconut trees, the Mukkuthoduwawa Estate sand removal project Phases 1 and 2 was assigned to two private contractors and commenced and implemented in 2021. However, the audit did not observe that a formal study had been conducted when	The amount to be recovered for the illegally removed sand mixed soil, along with a 50 percent surcharge, is Rs. 650.55 million. A written complaint has been submitted to the Criminal Investigation Department regarding the financial loss incurred and action is being taken against the two	Formal investigations should be conducted/reported to law enforcement agencies, legal action should be taken regarding the loss caused to the government, and recovery should be

<p>granting approval to the government institutions that approved the project and that formal supervision had been carried out during the implementation of the project. There was no formal internal control in place for monitoring the project, including the amount of soil removed from the site, and the CCTV system that was installed only stored data for one month. The company had recovered Rs. 84.5 million for 11,792.2 cubic meters of soil removed by the contractors under Phases 1 and 2 of the project, but according to the soil profile measurement reports, 71,888 cubic meters of mineral sand mixed soil had been removed from the land. However, the company had not taken actions to recover Rs. 650.55 million for the 60,095.8 cubic meters of mineral sand mixed soil removed in excess and the corresponding 50 percent surcharge. Although about 4 years had passed since the soil was removed from the land, the company had not taken actions to develop the land by planting coconut trees.</p>	<p>contractors as per the agreement, and the services of three estate officers in charge of the project have been suspended and a formal disciplinary investigation is being conducted.</p> <p>made from the responsible parties, and disciplinary action should be taken against the relevant officials. Actions should also be taken to develop the land.</p>
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| <p>(b) The company had received Rs. 15.6 million from the contractor for the removal of 11,556 cubes of sand from 01 March 2023 to 30 October 2024 in connection with the construction of the Thottam Tank on the land in Palai, Kilinochchi District, which had been handed over to the Chilaw Plantation Company by the Janatha Estate Development Board on 29 February 2023. However, although the sand removal was monitored by a security camera system, the information was not stored and the soil profile survey reports were not obtained and assessed by officers with professional knowledge of the amount of sand removed, so the accuracy of the amount of sand cubes actually removed and the amount paid could not be verified.</p> | <p>The amount of mineral cubes removed was 11,556 and the contractor had paid the company Rs. 15.6 million for 12,000 cubes. The daily footage recorded by the security camera systems is not recorded in a software and the Assistant General Manager - Plantations/Projects at the head office has conducted inspections from time to time and submitted written reports to the Chairman.</p> <p>Actions should be taken to conduct a formal investigation, obtain technical assistance, calculate the amount of soil removed, and recover the correct value.</p> |
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| (c) | <p>The company had been awarded contracts to sell 12 plots of sand and silty soil from 2021 to 2025, with contracts being renewed intermittently. Although the contracted excavation volume was 65,526 cubes and the expected revenue was Rs. 76.767 million, it was observed that the revenue received was Rs. 31.12 million for 22,692 cubes as of 21 May 2025. The accuracy of the volume of soil cubes removed was not confirmed due to the fact that the technical reports were not submitted for audit to verify the actual volume of excavated soil. Although the selling price of a cube of silty soil and sand in each estate zone ranged between Rs. 670 and Rs. 5,020, the basis on which the price of a cube was determined was not revealed to the audit. Furthermore, the award of contracts to carry out excavations has been in place since 2019, and even as of the date of the audit, permission to carry out excavations had been granted by extending the contracts intermittently, but no action had been taken to adjust the price of a cube of soil or sand to the current market price.</p> | <p>As of 21 May 2025, the revenue received from the contractor for 22,692 cubes was Rs.31.12 million and in 2024, 875 cubes were dumped in excess of the estimated amount in one plot of quarry field number 6. Although the price of minerals was determined according to the price committee reports of the Puttalam District Secretariat, due to the increase in those prices, a price for the value of minerals was fixed on the basis of a practical source document and the approval of the Board of Directors was obtained.</p> | <p>A formal investigation should be conducted into the entire process, legal action should be taken against the responsible officials, and technical assistance should be obtained to recover the money for the correct amount of soil.</p> |
| (d) | <p>The contract for the renovation of the tank located in Sinasola Estate, which belongs to the Mangala Eliya Estate Zone, was cancelled after nearly three years and Rs.900,000 out of the Rs.1,000,000 performance guarantee was returned to the contractor due to the fact that even half of the contract could not be completed. Although water was present in this tank, the renovation work had not been carried out properly and the water was flowing out due to the breach in the dam.</p> | <p>The necessary technical advice to renovate the road has been obtained, and work will begin in the near future.</p> | <p>Parties who implemented the project without formal planning and supervision should be identified and dealt with in a formal manner.</p> |

4. Accountability and Good Governance

4.1 Annual Report

Audit Observation	Comments	Recommendation
The draft annual report along with the financial statements had not been submitted for audit in accordance with paragraph 6.6 of the Public Enterprises Circular No. 01/2021 dated 16 November 2021.	The draft annual report is being prepared.	Actions should be taken to promptly prepare and submit the annual report for the year under review, and to formulate a program to ensure the submission of the draft annual report along with the financial statements in accordance with the circular in the coming years.